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TESTIMONY ON SENATE BILL 364 SENATE HEALTH COMMITTEE

Submitted by Blue Cross & Blue Shield United of WI February 16, 2000

Good afternoon, Chairman Moen and members of the committee. My name is Amy Lodes and I represent Blue Cross & Blue Shield United of Wisconsin. Thank you for providing me with the opportunity to testify today on Senate Bill 364 (SB 364) relating to the bonding authority of the Wisconsin Health and Educational Facilities Authority (WHEFA).

As a brief history, the SB 364 was part of the biennial budget that passed the Legislature in October. The language, which prohibits WHEFA from issuing bonds for the purchase of a health maintenance organization or other insurer, had the unanimous support of the bi-partisan Joint Committee on Finance and was included in both the Senate and Assembly versions of the budget.

The Governor inadvertently vetoed the budget language because it was thought to be tied to language that limited the bonding authority of the University of Wisconsin Hospital Authority. The language in SB 364 has been modified to address the Governor's concern and the Administration has indicated that they are comfortable with SB 364.

WHEFA bonding has skyrocketed over the past few years. From FY 1995 to FY 1999, WHEFA bonding grew from \$120.6 million to \$746.9 million. In four years, the amount raised through the sale of bonds grew by \$626.3 million! In many of the individual financings, the recipients of the WHEFA loans had ownership in for-profit businesses.

Blue Cross and Blue Shield United of Wisconsin supports SB 364. Many of our competitors are owned by entities that have the ability to seek WHEFA funding. Because WHEFA bonds are tax-exempt, they offer a low interest form of borrowing for health and education facilities. Since some of these facilities own for-profit businesses, the prohibition set forth in SB 364 provides a statutory reference that WHEFA funding will never directly or indirectly be used to support for-profit ventures. This prohibition helps to insure that taxpayer supported bonding does not assist for-profit interests and it also maintains a level playing field for those of us who do not have access to low interest loans.

Previously, the point was raised that this language is not necessary because WHEFA currently adheres to the restriction set forth in the LRB draft.

We would contend that point. In a 1997 WHEFA Annual Report, a health care facility listed as one of the uses for the tax exempt bonds capitalization for an insurance company that they owned. If the statute explicitly prohibits using WHEFA funds for supporting for profit interests, why did the health care facility and WHEFA list it in the report?

In another recent case, a financially struggling HMO owned by a hospital received a capital infusion from the hospital simultaneous with a tax-exempt WHEFA offering.

If opponents of this LRB draft do not agree that the intent of this language is being served, I would ask the committee to entertain a friendly amendment that said "the authority may not issue bonds for the purpose of purchasing or capitalizing, directly or indirectly, a health maintenance organization or any other insurer."

Blue Cross wants to go on record as stating that we support WHEFA's statutory purpose of providing financial assistance to health and education facilities. However, WHEFA funds should not be used to support organizations that do not fall under statutory definitions of health or educational facilities.

Thank you Chairman Moen and members of this committee for the opportunity to testify today. I am happy to answer any questions that you may have.

State bond program keeps growing

By Julie Sneider

Wisconsin health care providers, colleges and universities borrowed a record-setting \$746.9 million in fiscal 1999 through the sale of bonds by the Wisconsin Health & Educational Facilities Authority (WHEFA).

WHEFA, based in Brookfield, approved 32 financings between July 1, 1998, and June 30, 1999, according to the WHEFA annual report.

Both the number of financings and the total dollar value increased from 26 financings totaling \$724.8 million in fiscal 1998.

WHEFA sells bonds on behalf of nonprofit health care and educational facilities to help finance their capital costs. Interest earned on the bonds is exempt from federal income taxes, which means the authority can sell the bonds at lower interest rates. The lower rates lower the costs of borrowing.

In total, WHEFA has completed 347 bond issues totaling more than \$6 billion over the ast 20 years.

Of the 32 financings in fiscal 1999, seven were issued to refinance outstanding debt at lower interest rates. The rest were issued to fund capital improvements at hospitals, other health care facilities, such as clinics or nursing homes, and private colleges and universities.

Fiscal 1999 was the third consecutive year in which WHEFA exceeded records in bond sales. The largest financing was for Aurora

BONDED

The Wisconsin Health & Educational Facilities Authority approved the following bond issues for Milwaukee-area institutions in fiscal 1999.

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Amount

United Lutheran Program for the Aging, Wauwatosa	Jnited
St. Camillus Health Center Inc., Wauwatosa	St. Ca
Rogers Memorial Hospital, Summit	3oger
ProHealth Care Inc. Obligated Group, Waukesha and Oconomowoc*\$45.6 million	oH ₀
Mount Mary College, Milwaukee\$2.5 million	dount
Milwaukee School of Engineering, Milwaukee	dilwa
Milwaukee Regional Medical Center, Wauwatosa\$3.9 million	dilwa
Marquette University, Milwaukee	darqu
Kenosha Hospital and Medical Center, Kenosha	(enos
Community Rehab. Facilities Acquisition Program, Racine, La Crosse\$4.7 million	Somm
Clement Manor, Greenfield\$21.3 million	Seme
Carthage College; Kenosha\$25 million	Yarth:
Aurora Health Care, Milwaukee	urora
Aurora Health Care, Milwaukee	\urore
Aurora Health Care, Milwaukee	\urora

*ProHealth includes Waukesha Memorial and Oconomowoc Memorial hospitals.

Health Care of Milwaukee, which borrowed a total of \$250 million in 1999.

The Milwaukee-based health care system is using the proceeds to pay for portions of various projects, including the construction of a hospital in Kenosha and the expansion of St. Luke's Medical Center in Milwaukee.

Although acute-care providers such as hospitals still make up the largest share of

WHEFA bond issues, a growing portion are pursued by long-term care providers and private colleges and universities, said Lawrence Nines, executive director of WHEFA

Of the 32 financings in fiscal 1999, 14 totaling \$449 million were for acute-care facilities such as hospitals; 12 totaling \$150 million were for other health providers such as

nursing homes and assisted-living facilities; and six totaling \$147.6 million were for colleges and universities.

But in 1998, 15 financings totaling \$634.1 million were for acute-care, seven totaling \$50 million were for nursing homes and four totaling \$40.6 million were for colleges and universities.

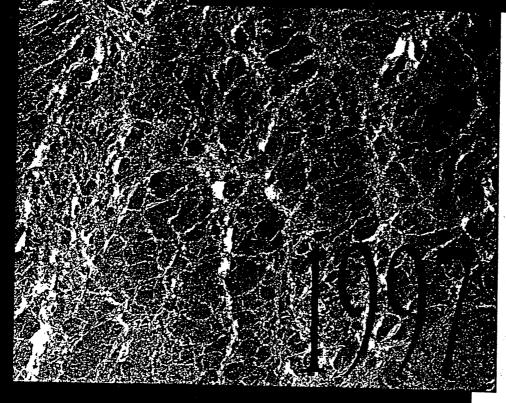
Nines said the continuing growth of care and housing options, such as assisted-living developments and continuing care communities, is a reason for the increase in WHEFA bond issues for long-term care providers.

As for educational facilities, the largest financing in fiscal 1999 was a \$93 million bond issue for Marquette University, Milwaukee. Marquette borrowed the money to refund a portion of its WHEFA bonds issued in 1992 and all of its WHEFA bonds issued in 1994. Proceeds also will be used to pay for the costs of other capital improvements and equipment purchases on the campus.

Fewer borrowers in 1999 than in 1998 sought to refinance outstanding debt, Nines said.

"Interest rates during 1999 actually increased approximately 1 percent from the beginning of the year to the end of the year, so the incentive for refinancing was not as strong," Nines explained. "In fact, many of the real high interest debt we issued in the late 1980s and early 1990s has already been refinanced."

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analysis and deployment of information for clinical, educational, and research purposes. Proceeds will also be used to relocate the Obstetrical unit in the Children's Hospital facility located on the Milwaukee Regional Medical Center campus where the Medical College is also located.

\$35,195,000 - Meriter Hospital, Inc.

Madison - The project includes the construction of a patient services tower and related renovations and improvements designed to facilitate the consolidation of clinical services on the Park Campus. The bonds will also finance information and communications technology, routine capital spending, regional development, capitalization for Physicians Plus Insurance Corporation, and investment with Physicians Plus Medical Group in an ambulatory surgery facility, and various other projects and investments.

\$100,000,000 - Wheaton Franciscan Services, Inc. System

Appleton, Milwaukee and Racine – The proceeds of the bonds will be used to pay or reimburse the Wisconsin-based members of the Obligated Group and St. Francis Hospital of Milwaukee for the costs of constructing, renovating, remodeling and equipping certain of their facilities. The project consists of numerous remodeling projects, the acquisition of various pieces of equipment, including computer and information system upgrades, and the construction and remodeling of certain patient care facilities at St. Mary's Hospital in Racine.

\$9,840,000 - American Baptist Homes of the Midwest - Tudor Oaks

Muskego – Proceeds of the bonds will fund certain improvements to the Tudor Oaks Retirement Center, a continuing care and retirement facility consisting of 195 independent living housing units and 61 nursing care beds. The improvements include the replacement and addition of furnishings, fixtures and equipment; reconfigure areas to enhance environment and improve marketing; refurbish the health center, hallways and common areas; and effect major repairs to buildings, driveways, parking and equipment. Proceeds were also used to refinance outstanding debt.

\$10,160,000 Series A and \$46,895,000 Series B - United Health Group, Inc.

Appleton and Neenah – The proceeds of the bonds were used to currently refund bonds previously issued through the Authority in 1989 and 1991. The 1989 bonds were used to finance certain capital improvements and equipment purchases at Appleton Medical Center in Appleton and Theda Clark Regional Medical Center in Neenah. A portion of the 1991 bonds were used to finance construction and renovation at Theda Clark and finance certain capital improvements at both facilities.

\$4,030,000 Series A and \$350,000 Taxable Series B - Malachi Corporation - Gillett and Wautoma Project

Gillett and Wautoma – The proceeds of the bonds will be used to purchase and renovate two skilled nursing facilities, the Gillett Nursing Home, a 44 bed facility located in Gillett, and the Wautoma Care Center, an 84 bed facility located in Wautoma.

\$2,990,000 - Viterbo College, Inc. Project

LaCrosse – The proceeds of the bonds will be used to acquire and construct a 96 bed apartment style residence facility to be used for on campus student housing and to acquire land and land improvements for an outdoor athletic complex.

